

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Fiscal Note

BILL NUMBER: Senate Bill 20 (Fourth Edition)

SHORT TITLE: IRC Update/Motor Fuel Tax Changes.

SPONSOR(S):

FISCAL IMPACT					
(\$ in millions)					
State Impact	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-29
General Fund Revenues:	(\$15.0)				
General Fund Expenditures:					
Highway Fund Revenues:	(\$10.1)	\$106.5	(\$15.5)		
Highway Trust Fund Revenues:	(\$3.4)	\$35.5	(\$5.2)		
Highway Fund Expenditures:	(\$10.1)	(\$2.3)	(\$2.3)	(\$2.3)	(\$2.3)
Highway Trust Fund Expenditures:	(\$3.4)				
State Positions:	-40.0	-40.0	-40.0	-40.0	-40.0
NET STATE IMPACT	(\$15.0)	\$144.2	(\$18.4)	\$2.3	\$2.3
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Dept. of Transportation, Dept. of Revenue					
EFFECTIVE DATE: Various					
TECHNICAL CONSIDERATIONS: None					

BILL SUMMARY:

Part I would update from December 31, 2013, to January 1, 2015, the reference to the Internal Revenue Code, thereby conforming to various federal provisions, including a deduction for teachers' classroom expenses of up to \$250, and an income exclusion for discharge of residence indebtedness for the 2014 year. The Bill would decouple from the following provisions:

- Enhanced Section 179 expensing limits
- Qualified tuition and expenses deduction
- Mortgage insurance premium as interest deduction
- Income exclusion for IRA distributions to charity by a person who has reached age 70.5.

Part II sets the motor fuels tax rate at 36 cents per gallon from April 1, 2015 to December 31, 2015 and it eliminates the July 1 adjustment of the motor fuels tax rate so that the motor fuel tax rate is

set once a year on January 1. The current motor fuels tax formula will be used to calculate the tax rate beginning January 1, 2016.

ASSUMPTIONS AND METHODOLOGY:

Part I. Internal Revenue Code Update

The fiscal impact to the General Fund from updating the reference to the Internal Revenue Code results from conformity to the following provisions:

Provision	FY 14-15 Fiscal Impact
Deduction of up to \$250 for teacher’s classroom supply expenses	\$ -1M
Income exclusion for mortgage debt forgiveness	\$ -14M

The estimate for conformity to the deduction for teachers’ classroom expenses is based on the US Joint Committee on Taxation (JCT) estimates on changes to federal taxes. The methodology used begins with these JCT estimates, which are calculated by federal fiscal year. Since the federal fiscal year ends 9/30 and the state’s fiscal year ends 6/30, Fiscal Research adjusts these numbers to an approximate state fiscal year tax impact. Then, the next step is to prorate the national numbers to the state impact. This adjustment involved two steps: accounting for the relative size of the state based on federal tax collections and then adjusting for the difference in federal marginal tax rates and the state tax rate. Once North Carolina’s share of the JCT estimates were determined, state tax liability changes were estimated and allocated to the appropriate fiscal year.

The fiscal impact for conformity to the income exclusion for discharge of residence indebtedness also begins with JCT estimates on changes to federal taxes. The national impact on federal tax revenue is shared down to the North Carolina portion using North Carolina’s share of mortgage interest deductions on federal tax returns. Next, an adjustment is made to account for the difference in the North Carolina tax rate and the average marginal tax rate at the federal level on each dollar of mortgage debt forgiven. That number is discounted by 15%. The discount is based on real estate statistics indicating that the average median home sales price in North Carolina is approximately 85% of the national median average home sales price.

Part II. Motor Fuels Tax Changes

This bill sets the motor fuels tax rate at 36.0 cents per gallon from April 1, 2015 to December 31, 2015. The rate is currently set at 37.5 cents per gallon until June 30, 2015. Adjusting the motor fuels tax rate reduces revenues to the Highway Fund and Highway Trust Fund by \$13.4 million in the current fiscal year.

Distribution of Motor Fuels Tax:

Seventy-five percent (75%) of motor fuels tax revenue is deposited in the Highway Fund and the remaining twenty-five percent (25%) is deposited in the Highway Trust Fund. Three formulaic

allocations of revenues from the Highway Fund are impacted by this bill. Powell Bill aid to municipalities is derived from ten and four tenths percent (10.4%) of motor fuel tax revenues and both the Wildlife Resources Fund and the Shallow Draft Navigational Channel and Lake Dredging Fund receive one sixth of one percent (0.167%) of Highway Fund motor fuels tax revenues.

FY 2014-15 budgetary impacts:

The specified reductions shown in Table 1 are taken in the Highway Fund. The line-item cuts are included in Appendix 1. Funds excluded from the 1.4% cut, identified in Sec. 2.4(e), are found in Appendix 2. Cuts to the Highway Trust Fund are made to the Strategic Transportation Investments fund by the statutory formula, as shown in Table 2.

Table 1: FY 2014-15 Highway Fund Adjustments			
1	Sec. 2.4(e)	1.4% Across-the-board (with exceptions)	(\$5,908,121)
2	Sec. 2.4(f)	0.5% Reductions to Primary and Secondary Maintenance and to Pavement Preservation	(\$2,379,994)
3	Sec. 2.4(g)(1)	Powell Bill	(\$1,045,200)
4	Sec. 2.4(g)(2)	Wildlife Resources	(\$16,750)
5	Sec. 2.4(g)(3)	Shallow Draft Navigational Channel and Lake Dredging Fund	(\$16,750)
6	Sec. 2.4(h)	Elimination of 40 vacant positions (plus use of lapsed salaries)	(\$683,185)
TOTAL HIGHWAY FUND ADJUSTMENTS			(\$10,050,000)

Table 2: FY 2014-15 Highway Trust Fund Adjustments			
1	Sec. 2.4(a)	Statewide Strategic Mobility tier (40%)	(\$1,340,000)
2	Sec. 2.4(a)	Regional Impact tier (30%)	(\$1,005,000)
3	Sec. 2.4(a)	Division Needs tier (30%)	(\$1,005,000)
TOTAL HIGHWAY TRUST FUND ADJUSTMENTS			(\$3,350,000)

Changes to statutory earmarks in FY 2015-16 through FY 2018-19:

The consensus 2015-17 forecast and NCDOT 10-year forecast project increased remittances to the Powell Bill, the Wildlife Resources Fund, and the Shallow Draft Navigational Channel and Lake Dredging Fund, as shown below in Table 3. Powell Bill funds are distributed in October and January based on actual revenue collections from the prior fiscal year. The motor fuels tax revenues collected in FY 2015-16 will determine the amount of funds municipalities receive in October 2016 and January 2017.

Table 3: Statutory Adjustments - FY 2015-16 to FY 2018-19				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Powell Bill	\$ 22,300,200	\$ (1,606,800)	\$ -	\$ -
Wildlife Resources	\$ 357,375	\$ (25,750)	\$ -	\$ -
Dredging	\$ 357,375	\$ (25,750)	\$ -	\$ -

Forecasted future motor fuels tax rate:

Table 4 compares the average motor fuels tax rate between the February forecast, SB 20, and the House PCS to SB 20. The forecast anticipates the motor fuel tax rate will reset to 29.6 cents per gallon on January 1, 2016 and to 32.7 cents per gallon on January 1, 2017.

TABLE 4: COMPARISON: AVERAGE MOTOR FUEL TAX RATES (cents per gallon)					
	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
February Forecast	37.0	30.4	31.3	33.8	34.2
SB 20	36.2	35.0	36.4	40.5	41.0
House PCS	36.8	33.3	30.6	33.8	34.2

Highway Fund expenditures in FY 2015-16 through FY 2018-19:

Eliminating 40 vacant positions will create annualized savings to the Highway Fund of \$2,289,840 annually.

APPENDIX 1: FY 2014-15 LINE-ITEM REDUCTIONS

Fund Code	Unit	Certified 2014-15	Adjustments	% Adj
0001	Board of Transportation	\$66,834	(\$936)	-1.4%
0002	Communications	\$1,443,446	(\$20,208)	-1.4%
0006	Legal - Attorney General Staff	\$1,486,713	(\$20,814)	-1.4%
0007	Administration - Secretary	\$2,724,174	(\$38,138)	-1.4%
0035	Bicycle Program	\$726,895	(\$10,177)	-1.4%
0036	Public Transportation	\$300,311	(\$4,204)	-1.4%
0037	Rail Division	\$602,015	(\$8,428)	-1.4%
0041	Aeronautics	\$2,061,389	(\$28,859)	-1.4%
0042	Governor's Highway Safety Program	\$284,624	(\$3,985)	-1.4%
0049	Driver Licensing	\$50,213,868	(\$702,994)	-1.4%
0054	Motor Vehicle Exhaust Emissions	\$12,141,607	(\$169,982)	-1.4%
0055	Chief Engineer	\$741,159	(\$10,376)	-1.4%
0056	Deputy Chief Engineer of Operations	\$809,297	(\$11,330)	-1.4%
0179	PDE Engineer Trainee Program	\$9,264	(\$130)	-1.4%
0869	Reserve - Global TransPark	\$750,000	(\$10,500)	-1.4%
1096	Strategic Planning - Office of Transportation - Administration	\$196,373	(\$2,749)	-1.4%
1104	Governance Office - Admin	\$85,892	(\$1,202)	-1.4%
1130	Office of Equal Opportunity and Workforce Services	\$456,246	(\$6,387)	-1.4%
7011	Inspector General	\$1,817,078	(\$25,439)	-1.4%
7015	Human Resources	\$4,414,223	(\$61,799)	-1.4%
7020	Financial	\$5,469,981	(\$76,580)	-1.4%
7025	Information Technology	\$62,164,225	(\$870,299)	-1.4%
7030	Facilities Management and Support Services	\$19,701,587	(\$275,822)	-1.4%
7050	DMV - Commissioner's Office	\$8,633,380	(\$120,867)	-1.4%
7055	Vehicle Registration	\$35,871,643	(\$502,203)	-1.4%
7060	License and Theft Bureau	\$13,332,505	(\$186,655)	-1.4%
7080	Division 1	\$1,518,170	(\$21,254)	-1.4%
7085	Division 2	\$1,843,297	(\$25,806)	-1.4%
7090	Division 3	\$1,778,990	(\$24,906)	-1.4%
7095	Division 4	\$1,649,302	(\$23,090)	-1.4%
7100	Division 5	\$2,015,647	(\$28,219)	-1.4%
7105	Division 6	\$1,793,311	(\$25,106)	-1.4%
7110	Division 7	\$1,917,178	(\$26,840)	-1.4%
7115	Division 8	\$1,599,988	(\$22,400)	-1.4%
7120	Division 9	\$1,708,328	(\$23,917)	-1.4%
7125	Division 10	\$2,175,888	(\$30,462)	-1.4%
7130	Division 11	\$1,599,781	(\$22,397)	-1.4%
7135	Division 12	\$1,610,299	(\$22,544)	-1.4%
7140	Division 13	\$1,504,541	(\$21,064)	-1.4%
7145	Division 14	\$1,875,931	(\$26,263)	-1.4%
7153	Technical Services - Administration	\$683,025	(\$9,562)	-1.4%
7175	Field Operations Support	\$3,038,590	(\$42,540)	-1.4%
7176	State Asset Management	\$38,003	(\$532)	-1.4%
7185	Safety	\$2,545,262	(\$35,634)	-1.4%
7812	Construction - Secondary	\$12,000,000	(\$168,000)	-1.4%
7814	Construction - Public Service Roads	\$1,723,707	(\$24,132)	-1.4%
7817	Spot Safety	\$12,100,000	(\$169,400)	-1.4%
7821	Maintenance - Primary	\$144,212,584	(\$721,063)	-0.5%
7822	Maintenance - Secondary	\$266,741,215	(\$1,333,706)	-0.5%
7829	Railroad Program	\$23,047,805	(\$322,669)	-1.4%
7830	Airports Program	\$19,200,000	(\$268,800)	-1.4%
7831	Public Transportation - Highway Fund	\$84,843,069	(\$1,187,803)	-1.4%
7832	OSHA Program	\$358,030	(\$5,012)	-1.4%
7837	Division of Small Urban Construction	\$5,000,000	(\$70,000)	-1.4%
7838	Economic Development	\$4,036,171	(\$56,506)	-1.4%
7841	Pavement Preservation	\$65,045,024	(\$325,225)	-0.5%
Grand Total		\$1,505,673,533	(\$8,288,115)	

Appendix 2: Fund Codes Exempt from 1.4% Reductions

84210-0852	DOR – International Registration Plan
84210-0862	Agriculture – Gasoline Inspection Fee
84210-0864	DOR – Gasoline Tax Collections
84210-0865	DHHS – Chemical Testing
84210-0867	DPI – Driver Training Program
84210-0868	Transfer to General Fund
84210-0871	Employer’s Contribution – Retirement
84210-0873	Legislative – Salary Increases
84210-0877	Stormwater Management
84210-0878	State Fire Protection Grant Fund
84210-0881	Consolidated Call Center
84210-0882	Reserve – Visitor Center
84210-0885	State Employee Reserve
84210-0889	OSBM – Civil Penalty
84210-0892	Garvee Bond Redemption
84210-0893	OSC – Best Shared Services
84210-0933	Reserve – Minority Contractor Dev.
84210-0934	Reserve – General Maintenance
84210-0935	Reserve for SEIBP
84210-0937	Reserve – Administration Reduction
84210-1165	Transfer to General Fund – SHP
84210-1260	State Ethics Commission
84210-7040	Ferry Administration
84210-7615	Ferry
84210-7818	Construction - Contingency
84210-7821	Maintenance – Primary
84210-7822	Maintenance – Secondary
84210-7824	Contract Resurfacing
84210-7825	Ferry Operations
84210-7826	Capital Improvements
84210-7827	FHWA Construction
84210-7828	Governor’s Highway Safety Program
84210-7834	Motor Carrier Safety
84210-7836	State Aid – Highway Fund for WBS
84210-7839	Bridge Program
84210-7841	Pavement Preservation

SOURCES OF DATA: Consensus Revenue Forecast for FY 2015-16 and 2016-17 and DOT's 10-year forecast for FY 2017-18 and FY 2018-19.

TECHNICAL CONSIDERATIONS: None

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